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July 11, 1996

EX PARTE OR LATE FILED

Mr. William Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: Ex Parte Presentation in CC Docket No. 96-98

Dear Mr. Caton:

This letter confirms that Douglas Kinkoph and I, on behalf of LCI International Telecom Corp. ("LCI"), met today with James Schlichting, Chief of the Competitive Pricing Division, and Edward Krachmer of the Common Carrier Bureau regarding the comments filed by LCI in the above-referenced proceeding. The attached materials were distributed at the meeting.

Sincerely yours,



Robert J. Aamoth

cc: Edward Krachmer (FCC)
James Schlichting (FCC)

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LCI COMMENT SUMMARY

CC DOCKET NO. 96-98

JULY 11, 1996

**LOCAL EXCHANGE RESALE UNDER SECTION 251(C)(4) WILL NOT
BE A MEANINGFUL ENTRY MECHANISM WITHOUT TRUE WHOLESALE RATES**

I. Local exchange resale is necessary for both interim and permanent local entry.

A. A carrier must be able to enter the local market to compete in the full-service market.

B. Local exchange resale is an essential interim entry mechanism because entry through the purchase of network elements under Section 251(c)(3) will take time and occur unevenly over geographic regions.

C. Local exchange resale is an important permanent entry mechanism because it will not be feasible for carriers to serve all existing and prospective customers via network facilities. (On the whole, however, the purchase of network elements under Section 251(c)(3) will be a much more robust form of permanent local entry.)

II. Section 251(c)(4) requires local exchange resale at "wholesale rates," and Section 252(d)(3) requires wholesale rates to reflect retail rates minus avoided costs.

A. These provisions require that the wholesale reduction reflects all retail-related costs. Retail costs include costs in account categories which are retail-specific, and overheads of which some portion is retail-related.

B. The purpose of the avoided-cost methodology is to derive a true "wholesale" rate; any interpretation of that methodology which would result in wholesale customers compensating ILECs for retail costs is incorrect.

C. What costs are "avoided" by wholesaling?

(i) When a single customer leaves the ILEC for a new entrant, the ILEC loses a retail customer and gains a wholesale customer; the ILEC no longer has to incur any retail-related costs to serve that customer. From the perspective of that customer, the ILEC has avoided all retail-related costs.

(ii) Were the ILEC to lose all its retail customers to new entrants and exit the retail market completely, the costs that it would cease to incur are those that it would "avoid" by operating as a wholesale carrier.

D. Some ILECs argue that new entrants should not obtain any wholesale reduction if the ILECs' aggregate retail costs increase in the new market environment. That argument would eliminate any wholesale reduction, thereby defeating Congress' intention to encourage local entry through wholesale local exchange rates. It also would force new entrants to fund the ILEC's marketing efforts to retain its local customer base, a result which undermines competition.

E. As a benchmark, the FCC should note that the larger ILECs will routinely obtain wholesale reductions of 50-80% when they enter the interLATA market.

F. The Washington Research Group has noted: "The law couldn't be more lopsided -- the telcos can expect to resell long distance wholesale at a 30-60 percent discount while the long distance carriers can expect to resell the local loop

wholesale at no more than a 5-20 percent discount. . . . The 'avoided cost' wholesale resale should be called 'no profit resale.'" See Telecomplexity: Navigating the New Telecom Law for Investment Advantage, Washington Research Group, Mar. 25, 1996, at pp. 3, 5. The FCC should make sure that this prediction does not come true.

III. The FCC should prohibit all resale restrictions other than the single restriction authorized by Congress -- limiting the resale of class-restricted services to class members. The FCC should not permit ILECs to withdraw (or grandfather) services unless they show that the withdrawal is justified by reasons unrelated to resale and the state commission approves. All new retail offerings should be simultaneously available on a wholesale basis.

IV. Local exchange resale will not be meaningful absent access charge reform.

A. Even when a new entrant wins a local customer through local exchange resale, the ILEC will retain its monopoly over access service to/from the customer. The ILEC will continue to realize substantial profits even though the new entrant supports the customer

B. In competing as full-service providers, the ILECs would use inflated access revenues to subsidize package offerings with which new entrants could not fairly compete.